

REPORT OF EXAMINATION
OF THE
HEALTH NET LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed May 18, 2011

TABLE OF CONTENTS

PAGE

SCOPE OF EXAMINATION	1
COMPANY HISTORY	2
MANAGEMENT AND CONTROL:.....	2
Management Agreements	5
TERRITORY AND PLAN OF OPERATION	5
REINSURANCE:	6
Assumed	6
Ceded	6
FINANCIAL STATEMENTS:.....	7
Statement of Financial Condition as of December 31, 2009	8
Summary of Operations and Capital and Surplus Account	9
for the Year Ended December 31, 2009.....	9
Reconciliation of Capital and Surplus	10
from December 31, 2006 through December 31, 2009.....	10
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	11
Contract Claims: Life	11
Contract Claims: Accident and Health	11
Aggregate Reserves for Life Contracts	11
Aggregate Reserves for Accident and Health Contracts.....	11
Provision for Experience Rating Refunds	11
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	11
Current Report of Examination	11
Previous Report of Examination.....	11
ACKNOWLEDGEMENT	13

Los Angeles, California
March 18, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

HEALTH NET LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 21650 Oxnard Street, Woodland Hills, California 91367. The Company's statutory home office and main administrative office is located at 21281 Burbank Boulevard, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

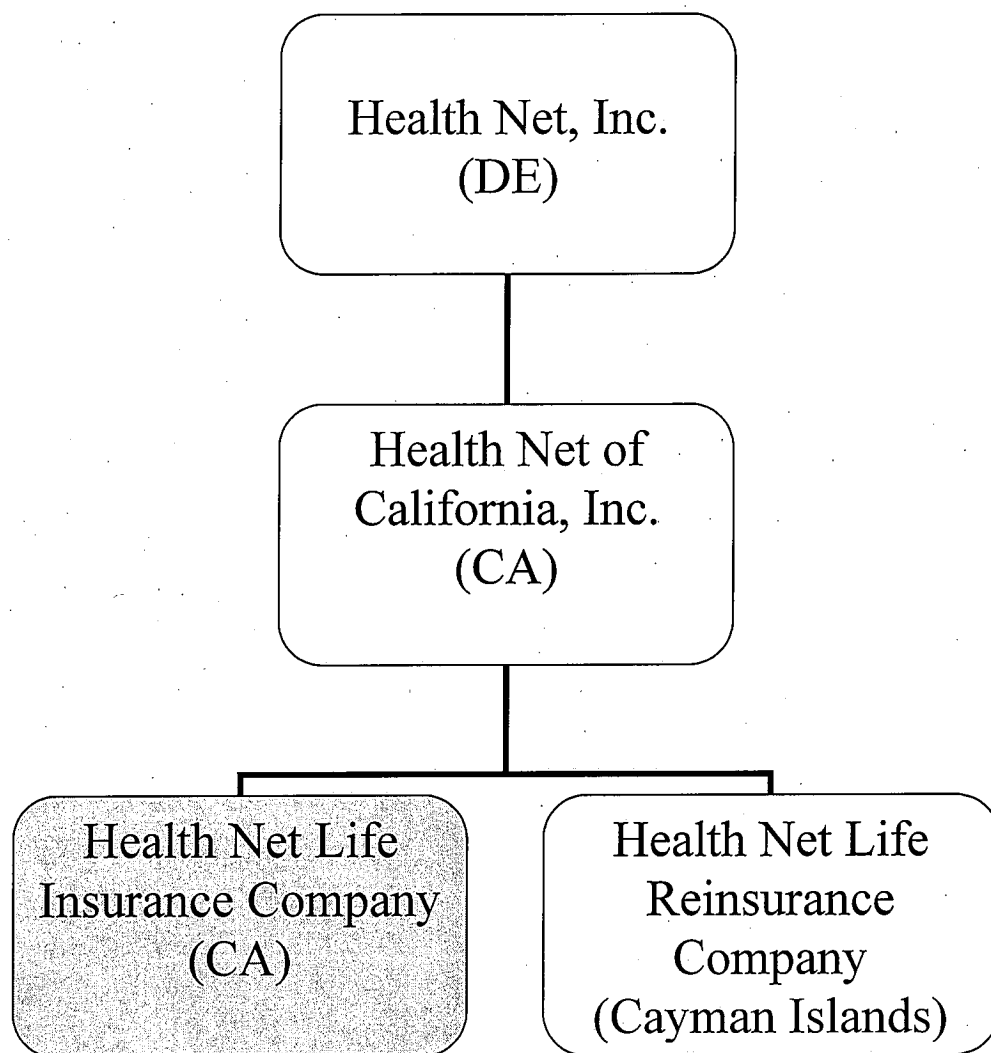
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; mortality experience; accounts and records; and sales and advertising.

COMPANY HISTORY

On May 31, 2007, the Company received a cash capital contribution of \$36 million from its parent, Health Net of California, Inc. (HNC). On March 31, 2008, the Company received a cash capital contribution of \$130 million from its parent, HNC. On October 23, 2009, the Company paid an ordinary cash dividend of \$35 million to its parent, HNC.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Health Net of California, Inc., and is ultimately owned by Health Net, Inc. The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:



All ownership is 100%

Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Patricia T. Clarey Studio City, California	Senior Vice President and Chief Regulatory and External Relations Officer Health Net, Inc.
Scott R. Kelly Santa Monica, California	Senior Vice President, Operations and Chief Government Programs Officer Health Net, Inc.
Bret A. Morris Los Angeles, California	Senior Vice President and Corporate Controller Health Net, Inc.
Gina L. Stassi Thousand Oaks, California	Vice President of Marketing and Chief Commercial Officer Health Net, Inc.
Steven D. Tough Granite Bay, California	Chairman of the Board Health Net Life Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Steven J. Sell Roupen Berberian	President Vice President, Chief Financial Officer, and Treasurer
Steven D. Sickle	Secretary

Management Agreements

Administrative Services Agreements: Effective January 1, 2003, the Company entered into various administrative service agreements with Health Net, Inc. (HNI), Health Net of California, Inc. (HNC), Health Net Health Plan of Oregon, Inc., Health Net of the Northeast, Inc., Health Net of Arizona, Inc., Managed Health Network, and Managed Health Network Services. The agreements cover certain administrative services, managerial support, consulting and other support services including executive, government relations, internal audit, legal, finance, human resources, marketing, medical management, government programs, actuarial and underwriting, membership accounting, purchasing, and IT administration services and support. According to these agreements, the Company is to reimburse or charge its affiliates for the actual fair and reasonable pro rata costs and expenses incurred or utilize cost factors to calculate and allocate costs. The Company paid \$166.0 million, \$201.9 million and \$185.9 million for 2007, 2008 and 2009, respectively, for services provided by affiliates. The Company received payments of \$1.8 million, \$1.9 million and \$1.7 million for services rendered to affiliates for 2007, 2008 and 2009, respectively. These agreements were approved by the California Department of Insurance (CDI) on various dates in 2003.

Tax Sharing Agreement: The Company and its affiliates have an agreement with its ultimate parent, HNI, effective January 1, 2007, to file federal income taxes on a consolidated basis. According to the agreement, the Company pays HNI an amount equal to a separate return tax liability. If the Company is entitled to a tax credit or incurs a net operating loss during a taxable period, HNI will apply such credit to the Company. On September 17, 2008, the CDI approved this agreement.

TERRITORY AND PLAN OF OPERATION

The Company sells preferred provider organization health plans, point of service health plans, indemnity health plans, dental, vision, medicare supplement, behavioral health plans, and life insurance products.

As of December 31, 2009, the Company was licensed to sell life and accident and health products in all states except New York. The Company is also licensed in the District of Columbia. The principal line of business written is health insurance. The Company concentrates on small group and individual markets.

In 2009, the Company wrote \$1.92 billion of direct premiums. Of the direct premiums written, 56.6%, or \$1.09 billion, was written in California, \$234 million (12.2%) was written in Arizona, \$214 million (11.1%) was written in Oregon, and \$386 million (20.1%) was written in the remaining states.

REINSURANCE

Assumed

The Company assumes a relatively small amount of business as compared to its direct writings (just over one percent). The assumed business is from Health Net of New Jersey, Inc., an affiliate through December 11, 2009.

Ceded

The Company is party to an affiliated quota share reinsurance agreement with Health Net Life Reinsurance Company (HNLRC), an unauthorized affiliate. The Company cedes 50% of its California PPO health business and Medicare business to HNLRC. As of December 31, 2009, HNLRC had trust deposits totaling \$136.8 million to support the ceded reserve credits taken by the Company.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2009

Reconciliation of Capital and Surplus
from December 31, 2006 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 447,786,992	\$	\$ 447,786,992	
Common stocks	1,045,322		1,045,322	
Cash, cash equivalents and short-term investments	(23,042,204)		(23,042,204)	
Contract loans	7,949		7,949	
Investment income due and accrued	3,381,501		3,381,501	
Uncollected premiums and agents' balances in course of collection	28,831,172	9,693,740	19,137,432	
Accrued retrospective premiums	5,091,704		5,091,704	
Amounts recoverable from reinsurers	27,130		27,130	
Other amounts receivable under reinsurance contracts	2,650,000		2,650,000	
Amounts receivable relating to uninsured plans	181,377		181,377	
Current federal and foreign income tax recoverable	191,546		191,546	
Net deferred tax asset	5,997,528	616,354	5,381,174	
Receivables from parent, subsidiaries and affiliates	86,976,047	370	86,975,677	
Health care and other amounts receivable	110,317,047	22,094,193	88,222,854	
Aggregate write-ins for other than invested assets	<u>6,592,166</u>	<u>531,982</u>	<u>6,060,184</u>	
Total assets	<u>\$ 676,035,277</u>	<u>\$ 32,936,639</u>	<u>\$ 643,098,638</u>	

Liabilities, Surplus and Other Funds

Aggregate reserve for life contracts		\$ 509,581	(1)
Aggregate reserve for accident and health contracts		9,655,595	(1)
Contract claims: life		396,000	(1)
Contract claims: accident and health		107,432,820	(1)
Premiums and considerations received in advance		24,209,703	
Provision for experience rating refunds		13,971,972	(1)
Interest maintenance reserve		8,403,286	
Commissions to agents due or accrued		5,892,901	
General expenses due or accrued		4,787,334	
Taxes, licenses and fees due or accrued		1,983,265	
Remittances and items not allocated		12,977,022	
Asset valuation reserve		526,697	
Payable to parent, subsidiaries and affiliates		6,070,677	
Liability for amounts held under uninsured plans		1,740,105	
Aggregate write-ins for liabilities		<u>60,990,819</u>	
Total liabilities		259,547,777	
Common capital stock	\$ 2,500,000		
Gross paid-in and contributed surplus	317,522,006		
Unassigned funds (surplus)	<u>63,528,855</u>		
Surplus as regards policyholders		<u>383,550,861</u>	
Total liabilities, capital and surplus		<u>\$ 643,098,638</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2009

Statement of Income

Premiums and annuity considerations	\$ 1,161,565,144	
Net investment income	16,080,535	
Amortization of interest maintenance reserve	1,087,498	
Commissions and expense allowances on reinsurance ceded	108,118,000	
Aggregate write-ins for miscellaneous income	<u>4,798,350</u>	
Total		\$ 1,291,649,527
Death benefits	869,227	
Disability benefits and benefits under accident and health contracts	933,130,049	
Interest and adjustments on contract funds	13,571	
Increase in aggregate reserves for life and accident and health contracts	(2,360,716)	
Commissions on premiums	77,286,535	
General insurance expenses	191,870,929	
Insurance taxes, licenses and fees excluding federal income taxes	26,070,244	
Aggregate write-ins for deductions	<u>(5,839,771)</u>	
Total		<u>1,221,040,068</u>
Net gain from operations before federal income taxes and net realized capital losses		70,609,459
Federal income taxes incurred		12,444,806
Net realized capital losses		<u>(41)</u>
Net income		<u>\$ 58,164,612</u>

Capital and Surplus Account

Capital and surplus, December 31, 2008		\$ 368,802,303
Net income	\$ 58,164,612	
Change in net deferred income tax	(11,238,290)	
Change in nonadmitted assets	3,179,015	
Change in asset valuation reserve	(348,752)	
Surplus adjustment – paid in	(8,027)	
Dividends to stockholders	<u>(35,000,000)</u>	
Change in surplus as regards policyholders		<u>14,748,558</u>
Capital and surplus, December 31, 2009		<u>\$ 383,550,861</u>

Reconciliation of Capital and Surplus
from December 31, 2006 through December 31, 2009

Capital and surplus, December 31, 2006, per Examination \$ 203,499,724

	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net income	\$ 52,296,409	\$
Change in net deferred income tax	1,374,184	
Change in nonadmitted assets		4,641,594
Change in asset valuation reserve		30,696
Surplus adjustments: Paid-in	166,052,834	
Dividends to stockholders		35,000,000
	<u>\$ 219,723,427</u>	<u>\$ 39,672,290</u>
Total gains and losses in surplus		

Net increase in surplus for the examination period 180,051,137

Capital and surplus, December 31, 2009, per Examination \$ 383,550,861

COMMENTS ON FINANCIAL STATEMENT ITEMS

- (1) Contract Claims: Life
Contract Claims: Accident and Health
Aggregate Reserve for Life Contracts
Aggregate Reserve for Accident and Health Contracts
Provision for Experience Rating Refunds

The Company was directed by the California Department of Insurance (CDI) to retain the services of Actuarial Management Resources, Inc. (AMR) for the purpose of assisting this examination in determining the reasonableness of the Company's reserves. Based on the analysis by AMR and the review of their work by a Life and Health Actuary from the CDI, the Company's December 31, 2009 reserves were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None

Previous Report of Examination

Holding Company Transactions (Page 6): It was recommended that the Company obtain approval for the Joint Enterprise Agreement entered into with its affiliates and report the agreement in the Form B filings to comply with California Insurance Code (CIC) Sections 1215.4 and 1215.5(b)(4). The Company has complied with this recommendation and received the consent of the California Department of Insurance (CDI) on September 29, 2009.

Reinsurance-Ceded (Page 8): It was recommended that the Company amend the offset provision in their quota share treaty with Health Net Life Reinsurance Company. The Company made the appropriate amendment.

Financial Statement Items – Bonds (Page 13): It was recommended that the Company submit its custodial agreement to the CDI for approval to be in compliance with CIC Section 1104.9(d). On June 5, 2009, the CDI issued its approval of the agreement.

Financial Statement Items – Uncollected Premiums and Agents' Balance in Course of Collection (Page 13): It was recommended that the Company evaluate the collectibility of the receivable from the government and comply with Statement of Statutory Accounting Principles (SSAP) No. 6, paragraph 10. The Company now monitors the collectibility of this receivable.

Financial Statement Items – Health Care and Other Amounts Receivable – Pharmaceutical rebate receivables (Page 13): It was recommended that the Company disclose the method used to estimate pharmaceutical rebate receivables pursuant to SSAP No. 84, paragraph 24. Also, it was recommended that the Company enhance its internal control over the reconciliation of pharmacy claim data to ensure accurate calculation of pharmacy rebate receivables. The Company has complied with these recommendations.

Financial Statement Items – Health Care and Other Amounts Receivable – Medicare receivables (Page 14): It was recommended that the Company evaluate the collectibility of Medicare receivables periodically pursuant to SSAP No. 84, paragraph 23. The Company now monitors the collectibility of this receivable.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/s/_____
Greg Lieber, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California